

NPS ARCHIVE
1998.06
MOSHER, C.

DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY CA 93943-5101

NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

THE IMPACT OF SUBSISTENCE PRIME VENDOR ON NAVY AFLOAT FOOD SERVICE OPERATIONS

by
Christopher S. Mosher

June 1998

Thesis Advisor:
Associate Advisor:

David A. Smith
Mark E. Nissen

Approved for public release; distribution is unlimited.

REPORT DOCUMENTATION PAGEForm Approved
OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

1. AGENCY USE ONLY (Leave blank)**2. REPORT DATE**

June 1998

3. REPORT TYPE AND DATES COVERED

Master's Thesis

4. TITLE AND SUBTITLE

THE IMPACT OF SUBSISTENCE PRIME VENDOR ON NAVY AFLOAT FOOD SERVICE OPERATIONS

5. FUNDING NUMBERS**6. AUTHOR(S)**

Mosher, Christopher S.

7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)Naval Postgraduate School
Monterey, CA '93943-5000**8. PERFORMING
ORGANIZATION REPORT
NUMBER****9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)****10. SPONSORING /
MONITORING
AGENCY REPORT NUMBER****11. SUPPLEMENTARY NOTES**

The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

12a. DISTRIBUTION / AVAILABILITY STATEMENT

Approved for public release; distribution is unlimited.

12b. DISTRIBUTION CODE**13. ABSTRACT (maximum 200 words)**

The Subsistence Prime Vendor (SPV) program represents a significant deviation from DoD's traditional subsistence inventory management system. The traditional subsistence distribution system involved storing food items in DoD owned depots and warehouses, and relied upon DoD transportation assets to make deliveries to the end users. This system was determined to be overly costly and inefficient as it did not take advantage of best business practices. The SPV system relies upon commercial distributors to deliver food items directly to end users, bypassing the DoD depots and warehouse facilities. The commercial distributors use just-in-time inventory management philosophy and other best business practices to procure and distribute subsistence items much more efficiently and effectively than DoD had done previous to SPV. A concern is the prime vendor program's ability to meet the surge and sustainment of full scale military mobilization. Recommendations to reduce the risk of the Navy's surge requirements, as well as other contractual and administrative remedies are presented in this thesis. Customer, administrator, and contractor feedback are also addressed.

14. SUBJECT TERMS

Subsistence Prime Vendor

**15. NUMBER OF
PAGES** 120**16. PRICE CODE****17. SECURITY CLASSIFICATION
OF REPORT**

Unclassified

**18. SECURITY CLASSIFICATION OF
THIS PAGE**

Unclassified

**19. SECURITY CLASSIFI-
CATION
OF ABSTRACT**

Unclassified

**20. LIMITATION
OF ABSTRACT**

UL

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)

Prescribed by ANSI Std.

239-18

Approved for public release; distribution is unlimited

**THE IMPACT OF SUBSISTENCE PRIME VENDOR ON NAVY AFLOAT FOOD
SERVICE OPERATIONS**

Christopher S. Mosher
Lieutenant Commander, United States Navy
B.S., United States Naval Academy, 1988

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

ABSTRACT

The Subsistence Prime Vendor (SPV) program represents a significant deviation from DoD's traditional subsistence inventory management system. The traditional subsistence distribution system involved storing food items in DoD owned depots and warehouses and relied upon DoD transportation assets to make deliveries to the end users. This system was determined to be overly costly and inefficient as it did not take advantage of best business practices. The SPV system relies upon commercial distributors to deliver food items directly to end users, bypassing the DoD depots and warehouse facilities. The commercial distributors use just-in-time inventory management philosophy and other best business practices to procure and distribute subsistence items much more efficiently and effectively than DoD had done previous to SPV. A concern is the prime vendor program's ability to meet the surge and sustainment of full scale military mobilization. Recommendations to reduce the risk of the Navy's surge requirements, as well as other contractual and administrative remedies are presented in this thesis. Customer, administrator, and contractor feedback are also addressed.

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
	A. GENERAL.....	1
	B. BACKGROUND.....	3
	C. RESEARCH OBJECTIVE.....	6
	D. RESEARCH QUESTIONS.....	7
	E. LITERATURE REVIEW AND METHODOLOGY.....	8
	F. SCOPE AND LIMITATIONS.....	8
	G. THESIS ORGANIZATION.....	9
II.	SUBSISTENCE PRIME VENDOR OVERVIEW.....	11
	A. HISTORICAL PERSPECTIVE.....	11
	B. STATUS OF SPV PROGRAM.....	14
	C. THE TRADITIONAL DEPOT SYSTEM.....	15
	D. THE SUBSISTENCE PRIME VENDOR PROGRAM.....	22
	1. SPV Management Organization.....	28
	2. SPV Contracts.....	30
	a. <i>Source Selection Criteria</i>	31
	b. <i>Contract Requirements</i>	33

E. SUMMARY OF CHAPTER HIGHLIGHTS.....	38
III. BENEFITS OF SUBSISTENCE PRIME VENDOR.....	39
A. COST SAVINGS.....	39
1. Infrastructure.....	39
2. NAPA's.....	41
3. Food Show Program.....	41
4. Wholesale Inventory.....	42
5. Projections.....	43
6. Contract Administration.....	43
B. AVAILABILITY OF COMMERCIAL PRODUCTS.....	44
C. FINANCIAL FLEXIBILITY.....	47
D. INCREASED EFFICIENCY.....	48
E. REDUCED ORDER AND SHIPPING TIME.....	48
F. LOWER END-USER INVENTORIES.....	49
G. POTENTIAL FOR ONE-STOP SHOPPING.....	51
H. SUMMARY OF CHAPTER HIGHLIGHTS.....	51
IV. RISKS AND CONCERNS OF SPV.....	53
A. OUTSOURCING DOD INVENTORY MANAGEMENT.....	53
B. NAVAL LOGISTICS WARGAME 2007.....	56

C. SPV SURGE EXERCISE.....	64
1. PYA/Monarch of Virginia Beach.....	66
2. R & R Group.....	67
3. Surge Exercise Summary.....	68
D. SUMMARY OF CHAPTER HIGHLIGHTS.....	70
V. SURVEY RESULTS AND LESSONS LEARNED.....	73
A. SURVEY BACKGROUND.....	73
B. THE RESPONSES.....	74
C. SPV DISCREPANCIES AND RECOMMENDED SOLUTIONS.....	87
D. SUMMARY OF CHAPTER HIGHLIGHTS.....	94
VI. CONCLUSIONS AND RECOMMENDATIONS.....	95
A. CONCLUSIONS.....	95
B. ANSWERS TO RESEARCH QUESTIONS.....	96

APPENDIX A LIST OF SUPPLY OFFICERS SURVEYED.....101

APPENDIX B QUESTIONS ASKED TO SUPPLY OFFICERS.....103

LIST OF REFERENCES.....105

INITIAL DISTRIBUTION LIST.....109

I. INTRODUCTION

A. GENERAL

Beginning in the early 1990's, the General Accounting Office (GAO) conducted a series of studies that were critical of the Department of Defense's (DoD) inventory management system. Driven in part by these studies and in an effort to improve their archaic inventory systems, the DoD gradually began transitioning their inventory management philosophy from that of "just-in-case" to that of "just-in-time" for selected items by implementing the Prime Vendor concept.

Prime Vendor represents a fundamental shift in the DoD's inventory management philosophy. Rather than storing material in large Defense Logistics Agency (DLA) warehouses and issuing it to customers on demand, Prime Vendor contractors are instead called upon to deliver items directly to end users. These Prime Vendor contractors are largely distributors who get their material from various suppliers and immediately deliver it to the customers often without storing the material themselves. To date, DoD has

instituted the Prime Vendor concept for medicinals, clothing and textiles, and is in the process of implementing the Subsistence Prime Vendor (SPV) Program in the continental United States (CONUS).

There has been resistance within DoD to adopt the Prime Vendor concept because it means lower "organic" (i.e., DoD-owned) inventories and greater reliance on the private sector. The impact that this will have on readiness is uncertain. DLA is faced with the issue of how to manage an effective SPV Program that not only can deliver millions of dollars of annual savings and cost avoidance, but can also meet DoD's most pressing surge and sustainment requirements. Defense Supply Center Philadelphia (DSCP) Contracting Officers who manage the SPV Program must develop solicitations, select contractors, award contracts, and administer SPV contracts effectively toward that end.

This thesis analyzes the effect that the SPV Program will have on the quality and supportability of food service operations in the afloat Navy, and will provide recommendations regarding how to improve the program. This thesis also focuses on the program's ability to meet the

surge and sustainment requirements of a short fused battlegroup deployment in support of an overseas crisis.

B. BACKGROUND

The National Defense budget has decreased in real terms every year since 1985 (Doyle), and with the lack of an emerging global threat there is reason to expect this trend to continue. Further, the growing concern over the Social Security system's ability to meet the demands of the retiring "baby boomers" has the Federal Government and Congress aggressively searching for ways to fund Social Security in the years ahead. For these reasons and also due to increased internal focus on doing things more efficiently, DoD has been challenged to find ways to do business cheaper while maintaining the ability to deter or conquer any threat to our democracy that might emerge.

Privatization, downsizing, outsourcing, and base realignments, closures and consolidations have been common within DoD over the past several years. In their reports of the DoD's inventory management practices, GAO recommended the adoption of the "just-in-time" inventory practices

that had been tried and tested in the commercial sector leading to substantial cost savings (GAO/NSIAD 93-110).

Prime Vendor addresses many of the problems that had been associated with the previous DLA depot system. For instance, brand names are now more readily available, ordering and shipping time has been significantly reduced in several cases, and millions of dollars of annual infrastructure costs have been eliminated. However, the long-term effect of the Prime Vendor program on wartime/crisis readiness has not been demonstrated and is a significant concern to many within DoD.

The DLA initiated the Prime Vendor and Direct Vendor models for medical supplies in 1993. The program was called Medical Prime Vendor (MPV) and its goals were to achieve cost savings by reducing inventories, personnel and infrastructures, and to gain efficiencies by transferring these functions from the public sector to the more experienced, profit conscious private sector. The MPV program was hailed as a huge success, and DLA, through its DSCP (formally called Defense Personnel Support Center - DPSC), began to adopt the Prime Vendor program for clothing

and textile items. In 1993 Prime Vendor was adopted for subsistence items. As of March 1998, 90 percent of all pharmaceutical supplies are purchased through Prime Vendor contracts and 75 percent of CONUS subsistence for dining halls, both afloat and ashore, are purchased through Prime Vendor contracts (Hamre).

The Prime Vendor initiative is gaining popularity and it is being considered for an array of different types of materials. There is talk in some circles about acquiring hardware type consumables, aircraft bench spares, and avionics parts via Prime Vendor contracts. A recent Secretary of Defense memorandum states that by January 1, 1999, Prime Vendor contracts for maintenance, repair, and operating materials will be available for every major installation in the United States. (Hamre) The DoD has several Prime Vendor related initiatives in process, all of which will lead to less DoD owned and managed inventories and greater reliance on the commercial sector.

C. RESEARCH OBJECTIVE

The research objective of this thesis is to determine the effect that the SPV program will have on the quality of food service operations in the afloat Navy, and to provide recommendations on how it might be improved. Using commercial suppliers has potential for significant cost savings, improved customer service, and other advantages. As SPV has been in place for over one year on the East and Gulf Coasts, data regarding the problems and inefficiencies of the process were gathered. Customer feedback indicates that improvements can be made. Also, the ability of these Prime Vendors to support DoD, and specifically the afloat Navy, during a crisis is a concern that needs to be addressed. Communication, planning, and training of both military and contractor personnel will be critical to the ability of the Subsistence Prime Vendor program to support ships during a short fused, high intensity evolution, such as a Battlegroup deployment to the Persian Gulf on 96 hour notice.

D. RESEARCH QUESTIONS

The primary research question that this thesis addresses is:

What impact will the Defense Logistics Agency's Subsistence Prime Vendor program have on Navy afloat food service operations?

The secondary research questions are:

1. What is the traditional DoD subsistence distribution process?
2. What is the Subsistence Prime Vendor (SPV) program and how does it work?
3. What are the expected benefits of SPV?
4. What are the expected risks and concerns of SPV?
5. Given a likely surge scenario, what problems might SPV contractors encounter, and what risks do they present to the fleet?
6. What contractual measures or other actions can be taken to mitigate problems that are being experienced with SPV?

E. LITERATURE REVIEW AND METHODOLOGY

Publications, instructions, working papers from DSCP, DLA, and various other activities were reviewed for areas relating to the SPV Program. Ship SPV contracts were analyzed. A survey was conducted of afloat Supply Officers whom are supported by SPV. Interviews were conducted with SPV contractors, as well as DoD personnel involved with the program.

General Accounting Office (GAO) reports which document problem and success areas of the DoD inventory management systems and Prime Vendor contracts were analyzed as were after action reports of recent Naval War College Logistics war games results. A close review of DSCP and its SPV management team was conducted. SPV contracts were analyzed, as were the source selection procedures for those contracts.

F. SCOPE AND LIMITATIONS

The SPV contracts that are in the process of being implemented will support the entire U.S. Navy, afloat and ashore, CONUS and overseas. This research effort will only examine the CONUS afloat SPV contracts and the impact the

SPV program as currently managed will have on the readiness of the ships that they are designed to support.

Much of the actual SPV data used in this thesis have been drawn from ships homeported on the East Coast (Norfolk, Mayport, and Earle) and Gulf Coast (Pascagoula and Ingleside), which have been supported by SPV contractors since early 1997.

G. THESIS ORGANIZATION

This thesis is divided into five parts. The first part provides an overview of the traditional food distribution system and discussion of the Subsistence Prime Vendor program. Then the traditional food distribution system and SPV are compared. Part two provides an analysis of the program's expected benefits. The third part presents the risks and concerns that have been raised regarding SPV. The fourth part presents survey and interview results. The fifth part provides conclusions of the research and recommendations of ways to improve the SPV program.

II. SUBSISTENCE PRIME VENDOR OVERVIEW

This chapter examines the historical influences behind the SPV program. A description of the traditional DoD subsistence distribution system, as well as a description of the SPV food distribution system will be provided. The SPV management organization will be introduced. A description of the SPV contracting process, including source selection criteria and post-award contract administration functions, will be presented. Major aspects of the SPV contracts, such as the surge clauses, will also be presented.

A. HISTORICAL PERSPECTIVE

Since the beginning of the post-Cold War era, DoD has been focused on doing business smarter. Better, faster, cheaper have become popular buzz words within the logistics corridors in DoD. Acquisition reform initiatives such as commercial best practices, outsourcing, and commercial specifications have been widely endorsed and successfully implemented.

The National budget deficit and National debt have also become much more of a concern over the past 10 years. As

the President and Congress gain momentum in their effort to balance the budget and make the Social Security system solvent, the DoD budget continues to shrink.

Concerned about the \$60 billion increase in the value of DoD's inventories between 1980 and 1988, the Chairman, subcommittee on oversight of Government Management, Senate Committee on Governmental Affairs, asked GAO to conduct analysis comparing DoD's logistics practices with private sector practices. (GAO/NSIAD-93-110)

In 1992, the GAO issued a report indicating that DoD had wasted billions of dollars in excess supplies. GAO concluded that the problem was a result of DoD's inherent cultural belief that it was better to overbuy than to manage just the amount of stock needed. GAO called for use of more effective inventory management and control techniques and modern commercial inventory management practices, which GAO believed would lead to lower inventory levels and less holding costs. (GAO/HR-97-5)

In 1993, GAO issued another report, this one specifically targeted at DoD's food inventory system (GAO/NSIAD-93-110). This report indicated that DoD's food inventory system was

generally outmoded and inefficient. Its multiple layers of warehouses between producers and end-users had encouraged large inventories at all levels, which often sat on shelves for months or even years before reaching end-users. GAO felt that many of the costs that DoD incurred for holding, handling, and transporting large quantities of food were unnecessary because the existing network of private sector full-line distributors could supply food to DoD much more efficiently.

GAO theorized that because of the heavy competition within the industry, distributors would have the financial incentive to cut their costs, keep their prices low, and provide excellent customer service. Many large food service companies with many end-users, for example, Marriott Corporation, relied successfully on distributors to deliver food to their end-users. Two of the major Military Service Academies, Annapolis and West Point, had used distributors in the 1980's to support their food service operations with great success. GAO recognized this and commented that DoD's limited use of distributors to meet certain food needs had

demonstrated benefits, specifically lower costs and improved customer service.

Many DoD officials were concerned about relying on commercial distributors despite the success that they had enjoyed from their limited use. Of particular concern was the perceived need for military specifications for food items and Government-unique contract clauses. (GAO/NSIAD-93-110) DoD felt these obstacles might hinder the ability to procure commercial items and institute commercial logistics practices. However, taking this step would be consistent with the goals of DoD's comprehensive inventory reduction plan, issued in May 1990. The plan states that "where DoD requirements can be met through commercial distribution systems in a timely and cost effective fashion, no value is added by pushing items through the DoD warehousing systems." (GAO/NSIAD-93-110)

B. STATUS OF SPV PROGRAM

Before presenting a description of the traditional and SPV food distribution programs, it is important for the reader to understand the status of the DLA food distribution

system. As of this writing, all of the CONUS East Coast and Gulf Coast ships are being supported by the SPV program. All of the West Coast ships are being supported by the traditional Depot system.

The SPV program was prototyped in the Norfolk, Virginia area. Mayport, Florida was the first major facility to be completely supported by SPV. SPV contracts to support the Puget Sound and San Diego based ships are scheduled to be awarded in the coming months with actual SPV deliveries commencing in the summer of 1998.

To date, semi-perishable food items (canned) and perishable meats (frozen) are on SPV contracts. Fresh fruits and vegetables (FFV), breads and pastries, and dairy products are in most cases not included on SPV contracts. Customers supported by SPV are generally still required to order their FFV, dairy, and bread requirements from other contractors.

C. THE TRADITIONAL DEPOT SYSTEM

DSCP is the component of DLA responsible for purchasing more than 90 percent of the food supplied to military end-

users, i.e. dining halls, hospitals, ships, and other activities that feed sailors, soldiers, airmen, and marines. DSCP spent over \$1.1 billion in fiscal year 1997 to feed U.S. troops worldwide. (Bland) Through their volume buying, they are able to obtain price discounts from producers. DSCP purchases items from a variety of suppliers including manufacturers, growers, packers, and processors.

Under the traditional depot system, semi-perishable items, such as canned goods, are stored in four DLA depots. Perishable items, including FFV and meats, are stored in contractor operated Defense Subsistence Offices (DSOs). These warehouse facilities are located across the United States. Figure 2.1 shows the locations of the DSOs as of 1992.

Upon receiving requisitions for food, DLA transports the items from its warehouses to the Military Service installations. At each installation, a base warehouse facility stores the food until it receives orders from its end-users. The food is then delivered to the end-user

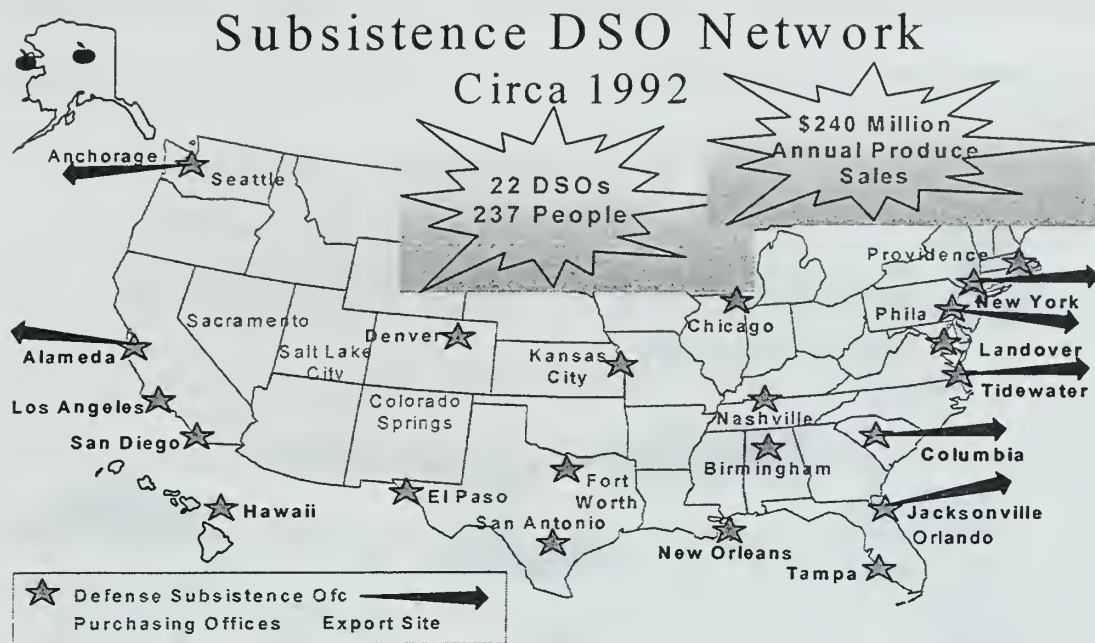


Figure 2.1. CONUS DSO LOCATIONS IN 1992 (Bland)

(e.g., ship). End-users order their subsistence directly from the base warehouse facility. A surface ship stationed in San Diego, for instance, orders their subsistence from Fleet and Industrial Supply Center (FISC) San Diego. FISC fills the order from the on-hand inventory in its warehouse, and orders the items that they do not carry, like bread, dairy, and FFV off of delivery order contracts that are in place. FISC then reorders from the DSO/Depot to replenish the on-hand stock in their warehouse. Any ordered items

that are not-carried or not-in-stock at FISC should be open-purchased for the customer.

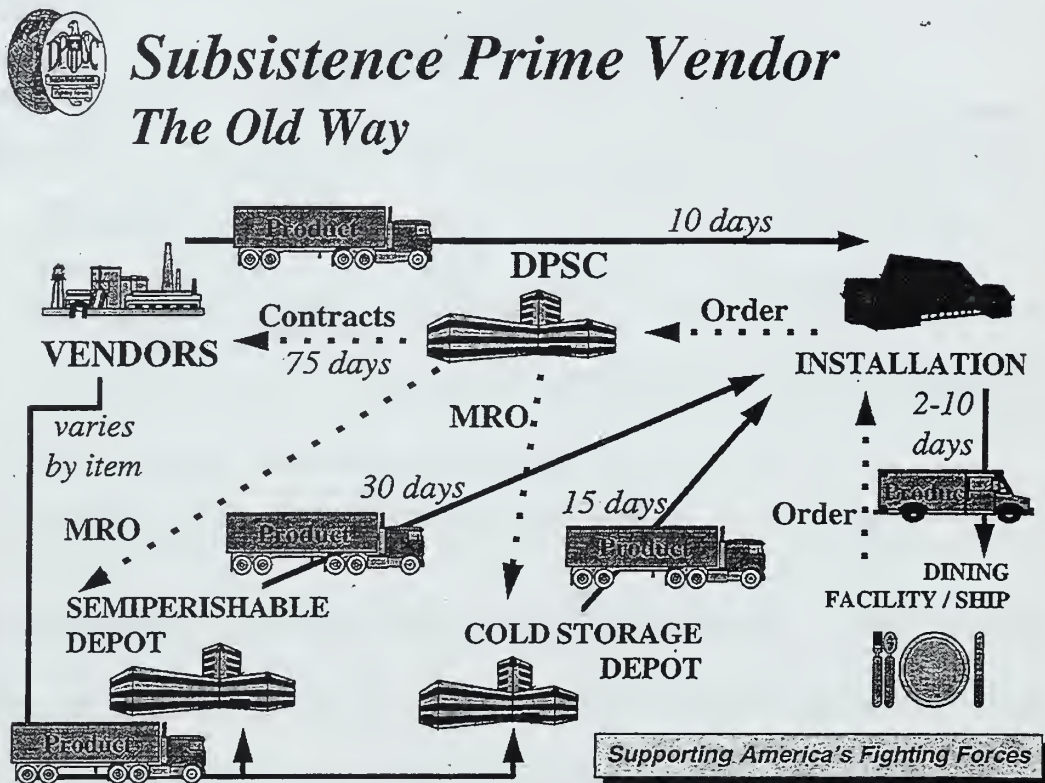


Figure 2.2. THE TRADITIONAL FOOD DISTRIBUTION SYSTEM (Bland)

The cost of doing business via the traditional method is quite expensive. Although DoD does not actually know the full costs of supplying food to end-users, it became obvious that they were spending too much money to do it.

(GAO/NSIAD-93-110) To illustrate the magnitude of the

savings available, the cost to operate the 25 DSOs and DLA warehouses was estimated to be almost \$64 million for fiscal year 1993. Annual operating expenses for the Air Force's 75 base warehouse activities in-CONUS averaged \$133 million each, for a total of roughly \$10 billion dollars. There are 49 Army and 42 Navy and Marine Corps base warehouse activities in CONUS, many of which were larger than the Air Force base warehouse activities (GAO/NSIAD-93-110).

DoD had built up enormous inventories of food at its depots, DSOs, and base warehouse activities, and items often remained at these facilities for long periods of time before they were moved to end users or were destroyed due to spoilage. The large inventories and slow turnover were the result of several factors including: changing customer preferences; dynamic operational schedules; long lead times required for orders; and most importantly, DoD's multi-layered supply system, which is considered inefficient.

According to a GAO report, as of the end of 1992, depots had enough semi-perishable food items on hand to supply base warehouses for approximately 82 days. DLA's total inventories of troop issue foods items at that time were

valued at \$159 million - \$82 million in semi-perishable items and \$77 million in perishable items. Base warehouse activities also held large inventories, worth approximately \$200 million as of September 30, 1991 (GAO/NSIAD-93-110). Many end-users were also maintaining substantial inventories. For example, Navy shore-based end users maintained an average inventory level of 32 days and ships were maintaining 75 to 90 day inventories on most items. (GAO/NSIAD-93-110)

DoD's multi-layered supply system is the key factor contributing to the large inventories and slow turnover of food products. (GAO/NSIAD-93-110) Under this system, base warehouse activities have traditionally depended on DLA to meet their food needs. Although the activities may go outside the system for items when it is in their best interest in terms of quality, timeliness, and cost, this has mainly been done only for those items out of stock or not stocked by DLA. Thus, DLA has had few incentives to maintain an efficient operation by keeping inventory levels low, and moving products quickly to base warehouse activities. Managers at the base activities and at the end-

user locations also maintained large inventory levels, because they felt the supply system was unreliable and they were not confident that they could get what they needed when they needed it from DLA. (Young)

Another related factor was DSCP's practice of procuring food from producers using long-range forecasts based on past orders from base warehouse activities, rather than short-term needs of end-users. DSCP used long-range forecasts because it took an average of 120 to 205 days from the time a need for an item was identified until the item was received in a depot. This delay was primarily due to procurement time. Additionally, these installation warehouse activities developed their orders, in part, on end-users' estimates of future needs, which can be as much as 60 days ahead of actual need.

Often the demand for an item declines after DSCP procures the item or after base activities submit their requisitions. When this happens, the depots, DSOs, or base warehouse activities receive food in excess of their actual need, and their inventories will increase. Managers at base activities and end-users often have difficulty accurately

forecasting their needs more than a few days ahead of the actual need, due to reasons such as unexpected mobilization or military exercises, menu changes, and changing consumer preference. Options to reduce excess inventories are limited and costly.

A FISC subsistence manager, responsible for managing food inventory under the Depot system to support a squadron of Mine Sweeping ships, communicated the inefficiencies inherent in the warehousing system: " I couldn't accurately forecast what was going on with the Fleet. I often had to guess what the ships were going to need over the next several months, and all too often I was wrong. The question became, how much spoilage are we willing to pay for in order to maintain an on hand inventory which was able to allow our ships to go to war?" (Young)

D. THE SUBSISTENCE PRIME VENDOR PROGRAM

The Subsistence Prime Vendor (SPV) program is designed to use commercial practices for food distribution. It is an attempt by DoD to tap into private sector logistics approaches. Specifically it is designed to: (1) use " just-

in-time" business practices that shift responsibilities for storing and managing inventory to suppliers; (2) shift responsibility for managing items to suppliers through the use of long-term agreements with only a few key suppliers; (3) use direct delivery practices that bypass the need for intermediate handling and storage; and (4) eliminate paperwork and speed up ordering by using electronic ordering systems and bar coding. Adopting the commercial distribution practices was intended to help DoD reduce inventory infrastructure, inventory levels, and handling costs. (GAO/HR-97-5) SPV utilizes indefinite quantity, indefinite delivery (IDIQ) type contracts with commercial food distributors to deliver subsistence products directly to the end-user, bypassing the depots and base warehouse activities.



Subsistence Prime Vendor

The Prime Vendor Way

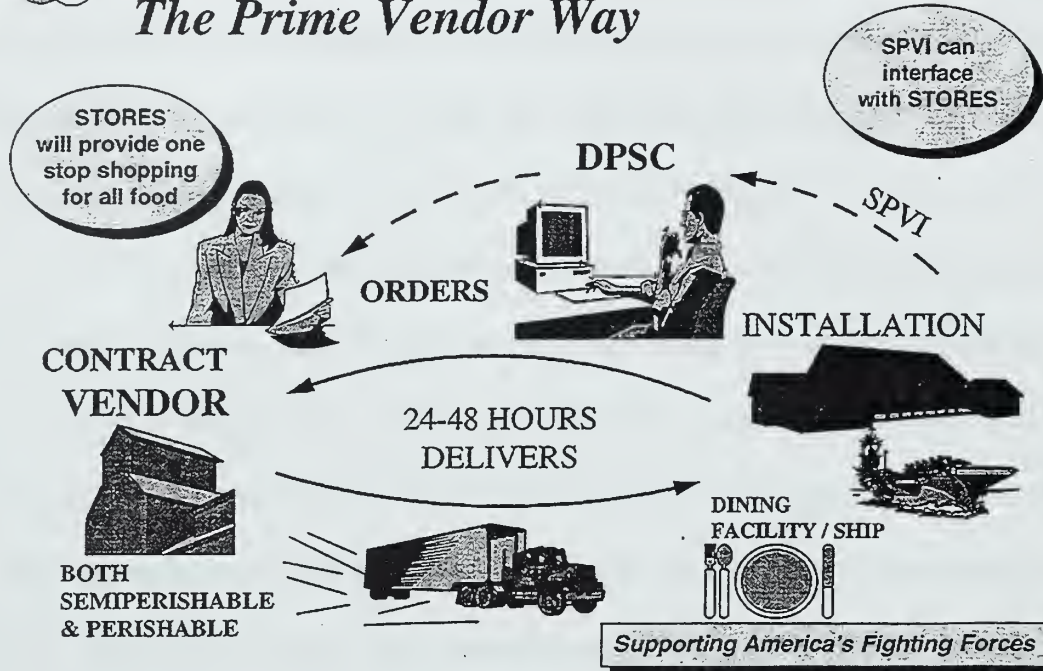


Figure 2.3. THE SPV PROCESS (Bland)

The SPV contractors who are supporting ships and base dining facilities are, by and large, the same contractors who provide food products to the major commercial users, e.g., schools, restaurants, hospitals, and hotels. The SPV program was designed so that end-users could order directly from contractors who will deliver the product directly to the end-user. Base warehouse facilities are to be bypassed, except for situations in which the end-user is not able to

take immediate delivery, for example, if a ship is at sea during a scheduled delivery. In this case, the contractor could arrange to drop the items at the base warehouse facility, who would deliver the order to the ship upon its arrival in port.

Ideally, ships will order directly from the contractor electronically. At the same time, a copy of the requisition would be transmitted to DSCP. Upon delivery, the ship would receive the material and sign a paper receipt annotating actual quantities received. The receipt would then be electronically reported by the ship to DSCP, with a copy to the contractor.

In reality, ships are not ordering electronically. They are using the Food Service Management (FSM) System to prepare their orders that are then put onto floppy diskette. The disc is then either sent via Streamlined Automated Logistics Transmission System (SALTS), or hand carried over to the local FISC¹ who processes the order on the Subsistence Prime Vendor Interpreter (SPVI). SPVI sends the

¹ There are eight order entry points that the ships can use to place their orders

electronic order to the contractor and simultaneously sends a copy of the order to DSCP.

SPVI is the automation backbone of the Prime Vendor concept. Currently, each Service has unique methods for processing requisitions from dining facilities to DSCP. These methods include varying degrees of automation and paper input, and vary with each Service. The automation systems, such as the Navy's FSM, that are currently used by the Services cannot currently communicate information directly with the vendor systems. SPVI is intended to provide a uniform DoD interface between distributors and each Service. The uniform interface will allow the replacement of Service-specific forms and automation systems with a standard electronic transaction. (Bland)

In essence, SPVI translates a Service's dining facilities order, which on a ship would be created on the FSM System, into a form that is understandable to the Prime Vendor's systems. The Prime Vendor requisition processing cycle with SPVI is outlined in Figure 2.4 below:

CURRENT OPERATING ENVIRONMENT

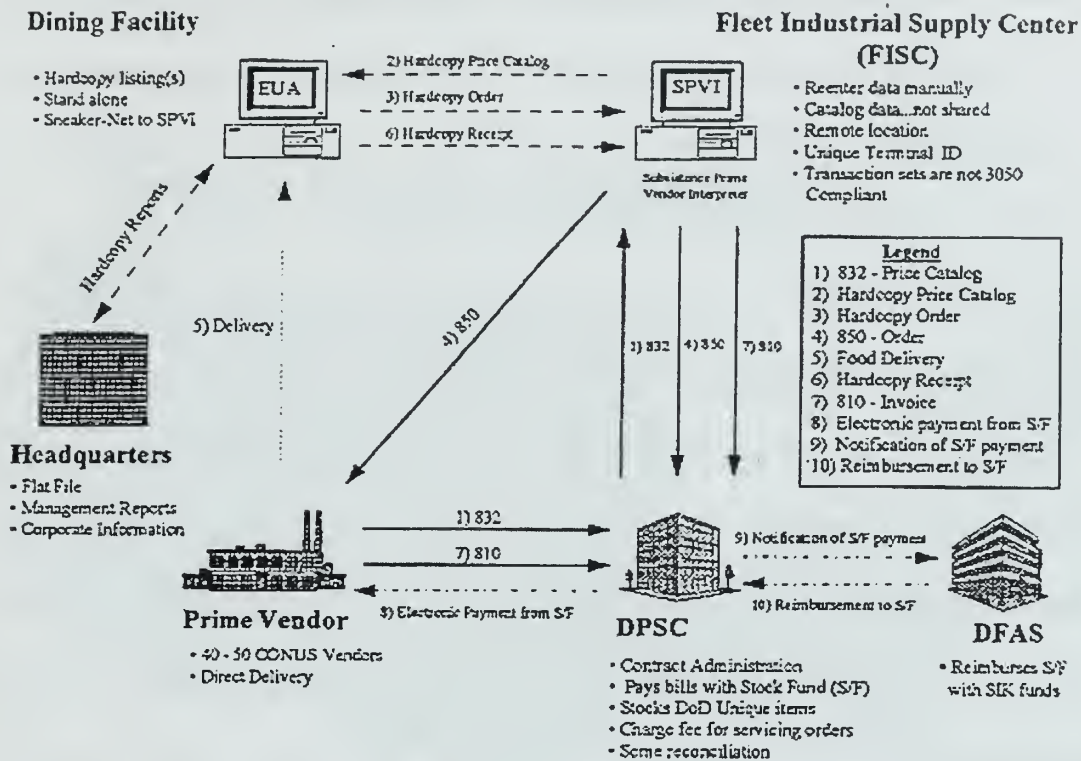


Figure 2.4. SPVI ORDERING PROCESS (Bailey)

The SPV system is designed to use an electronic catalog that lists all the items available for the customers to order. Each customer type, e.g., small ships, large ships, CLF ships, and base galleys have a separate and unique tailored catalog to order from. When completely implemented, the SPV program will have a closed loop electronic commerce system. The system will include catalog updates, requisitions, purchase orders, acknowledgments and

receipts. Information will be transmitted electronically between the customer, supporting FISC, DSCP, and the SPV contractor. Currently, some of the smaller ships, like minesweepers, do not use an electronic catalog. Instead, they use paper catalogs provided by the SPV contractor.

The SPV receipt process is slightly more involved than under the traditional system. Under SPV, the contractor delivers the order to the ship on the pier, and a ship's representative signs the receipt annotating any discrepancies on the receipt document. The contractor then brings the hard copy document to the FISC SPV representative who reports receipt via SPVI. Before doing so, FISC sends a receipt confirmation document to the ship via SALTS to ensure that the ship has actually received the material. If the ship has a problem with the receipt, they need to respond to the SALTs indicating the discrepancy, otherwise no further action is required on the ship's part. (Dysick)

1. SPV Management Organization

DLA is the organization that is chartered with the responsibility of procuring subsistence items for the DoD. Their subsidiary organization, DSCP, is the organization

chartered to award and administer subsistence contracts.

The Director of Subsistence at DSCP is the officer

responsible for implementation and management of SPV.

Prime Vendor Regions

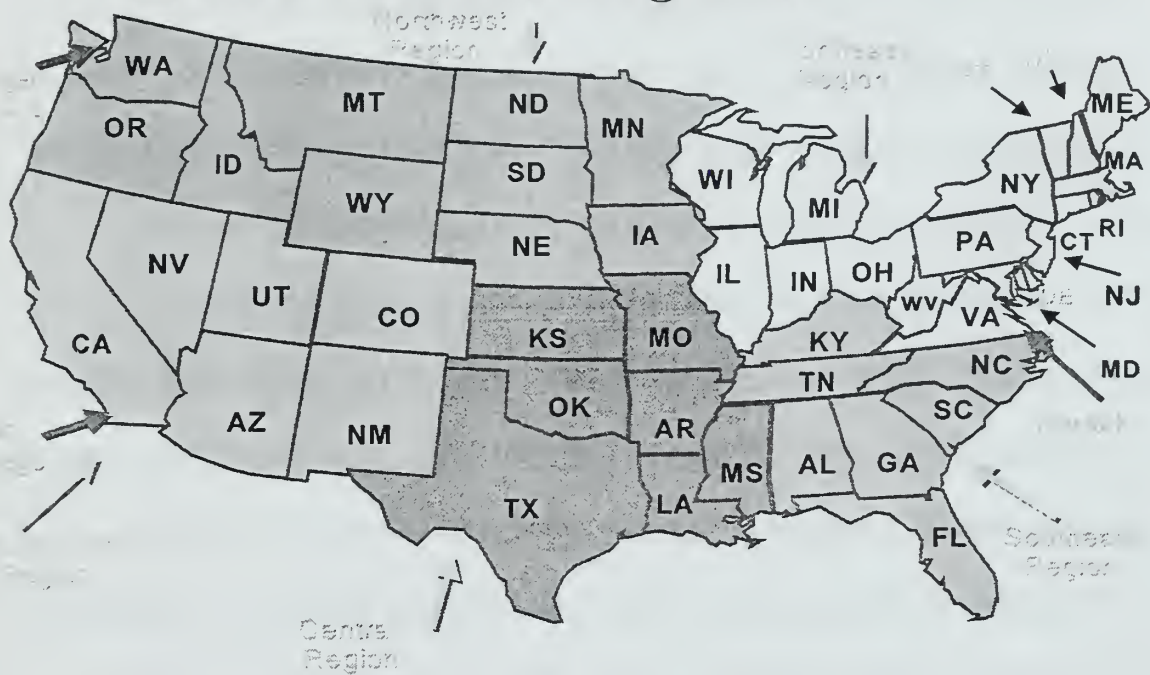


Figure 2.5. CONUS PRIME VENDOR REGIONS CHART (Bland)

The SPV management team is broken down by region as show in Figure 2.5 above. Each region has a Supervisory Contracting Officer and a team of contract specialists, account managers, supply technicians, business specialists, and procurement technicians.

2. SPV Contracts

Each SPV contract is slightly different due to use of a tailored approach in the formation of SPV contracts.

However, there are some basic similarities, e.g., all SPV contracts are Firm Fixed-Price, Best value, indefinite delivery contracts. The contracts are typically for one year, with four one-year options. DSCP encourages customer and other stakeholder involvement in the requirements development and technical evaluation stages of the contracting process. For afloat contracts, DPSC has gotten ship Supply Officers and Type Commanders to be involved with the pre-award process. These customer representatives joined the Contracting Officer and other Integrated Product Team (IPT) members during site visits to each potential contractor's facility.

The move to long term, Prime Vendor contracts has been a gradual shift. The DoD previously awarded subsistence contracts using sealed bidding, and awarded contracts to the lowest bidder. (Bland) No consideration was given to other than price factors, for example, quality, past performance, or Socioeconomic plans. In some cases, winning contractors

had minimum standards of responsibility, often had marginal past performance, poor product quality, and late delivery. This led to customer dissatisfaction.

Later DoD started using negotiations but evaluating price only. This resulted in a better price, but did not improve performance, delivery, or quality. The Best Value process was then adopted for subsistence contracting and has been used on all SPV contract awards. Regulatory authority for Best Value contracting is provided in the Federal Acquisition Regulation Part 15. Best Value source selection allows the Contracting Officer to review all factors that are relevant to source selection, and to make an integrated assessment of those factors to form the basis for award.

a) Source Selection Criteria

DSCP's source selection plan calls for each offeror to submit two different proposals. The first proposal addresses their technical plan, and the second proposal addresses their business plan. DSCP then analyzes these two plans separate from one another. The technical proposal is weighted significantly more heavily than the business proposal, and addresses the following areas:

- Distribution Process, Delivery System. Includes a site visit. Addresses product availability, ordering system, proximity to customer, surge/mobilization plan, and sourcing plan.
- Corporate Experience. Addresses past performance, organization support.
- Quality of Program. Quality Assurance, Sanitation Plans, etc.
- Socioeconomic. Review program for Small Business and Small Disadvantaged Business. Reviews subcontracting plan.
- Pricing Plans. Rebate/discount process.
- DLA Mentoring Agreements. Emphasis on helping small business. Ability to develop working relationships with small companies evaluated.
- Management Plan.
- EDI Capability.

The business proposals are evaluated by the buyers and contracting officers and address the pricing plans. As stated before, these two proposals are looked at individually; then, an overall score is assigned to that

offer by the DSCP Contracting Officer which is based on best value to the Government. Technical and past performance are considered much more important than price. (Bland) The goal of this integrated best value approach is to select the offeror with the greatest probability of successful performance at a fair and reasonable price to the Government.

The source selection process involves developing a partnership between DSCP, the customers, and other stakeholders. For the Mayport ship SPV contract for example, DSCP developed an integrated product team which had representatives from several Mayport based ships, the Type Commander, and Supporting FISC. These team members generated contract requirements, reviewed proposals, and conducted plant visits.

b) Contract Requirements

Surge Clauses:

Each SPV contract includes surge clauses which require that the contractor have the capability to manage:

- (1) large increases in quantities demanded, for short periods of time; and
- (2) meet the requirements on short

notice. A typical SPV contract states that the Services may encounter the unscheduled departure of ships, with only a few days advance notice. The order requirements could more than double their normal usage on any given day and the timing of these types of surges will be virtually impossible to anticipate. All SPV contracts currently state that pricing arrangements for items furnished during surge periods shall be the same as for those routine, non-surge orders. (Ford)

The contractors must also provide the ability to handle food distribution in support of a full-scale military mobilization or national emergency, wherein consumption could easily double or triple at any site for a protracted period. The contractor is required to develop a formal readiness plan which outlines means to meet this increased workload. The plan should address use of additional suppliers, subcontractors, trucking companies, etc., and should detail how the sustained increase in demand will be satisfied.

In order to help them develop their readiness plan, the contractors are advised to plan to support a

Battle Group at the time of national emergency or mobilization. The contract specifies that the Navy's Battle Group consists of one Aircraft carrier, six "small boys" (Cruisers or Destroyers), one large Amphibious aviation platform (LHA or LHD), two other smaller Amphibious class ships (LPD or LSD), and one replenishment ship (AOE). (Ford)

In order to ensure that the Prime Vendor's Surge and Mobilization capability is maintained, DSCP will require the Prime Vendor to demonstrate their ability to perform by participating in a paper surge exercise annually.

Emergency orders:

The contract specifies that the contractor shall provide same day emergency service to the FISC. Expeditious fulfillment of these emergency requirements is considered imperative and the contract states that orders may need to be delivered on Saturdays or Sundays.

Pricing Agreement:

The contract specifies the terms of the pricing arrangement. The following definitions/descriptions apply:

- Unit Price is the total price charged to DSCP per unit for a product delivered to the Government consisting of two components: "delivered price" and "distribution price" .
- Delivered price is the actual invoice of the product paid to the manufacturer/supplier, delivered to the Prime Vendor's facility (sometimes referred to as the landed cost). The delivered price for each item is influenced by commercial market forces, such as supply and demand, and competition among suppliers, and may, therefore, fluctuate. Accordingly, each unit price shall be increased or decreased when appropriate on a pre-established day of the week referred to as the authorized adjustment day.
- Distribution Price is the firm fixed-price, offered as a dollar amount, which represents all the elements of the contract price other than the delivered price. This distribution price will consist of the Prime Vendor's projected general and administrative overhead, profit, packaging costs, transportation costs and any other expenses.

The Government is authorized to perform price verification analysis throughout the term of the contract.

The Prime Vendor is required to obtain products from suppliers who can provide the best value to the Government in terms of price, delivery, and quality.

Other:

The SPV contracts also require the contractors to have sufficient Electronic Data Interchange capability to support ordering, acknowledgements, receipt processing, and catalog updates electronically. They are required to maintain the SPV catalogs and to update them weekly with item availability (range) and price changes.

In some situations, contractors are required to obtain items from specific suppliers. For example the Navy has identified 22 items as "military unique", formally referred to as Military Unique Subsistence Item Coordination (MUSIC) items. DPSC has contracted with Advocacy and Resources Corporation to maintain a supply of these items to be provided to the Prime Vendor supplying Naval Ships afloat. In the event that the contract is not re-awarded, the Prime Vendor contractor would be responsible for these items.

The SPV contract is fairly liberal in terms of case sizes and packaging requirements except in the case of Consolidated Afloat Replenishment Guide Overseas (CARGO) items, which must have the exact size, weight, packaging and cube as cited on the CARGO list.

E. SUMMARY OF CHAPTER HIGHLIGHTS

This chapter provided a description of the traditional DoD subsistence distribution system, as well as a description of the Subsistence Prime Vendor distribution system. The SPV contracting process and major elements of the SPV contracts were also presented.

III. BENEFITS OF SUBSISTENCE PRIME VENDOR

This chapter examines the many benefits of the SPV program. A breakdown of the factors contributing to cost savings is presented. These factors include infrastructure reduction, pricing agreements, wholesale inventory reductions, and reductions in contract administration costs. Other benefits of SPV, which include availability of commercial products, increased efficiency, reduced order and shipping time, lower end-user inventories, and potential for one-stop shopping, will also be discussed.

A. COST SAVINGS

1. Infrastructure:

Studies conducted by the DSCP Internal Review Office of 27 individual CONUS bases documented an infrastructure savings of approximately \$7.9 million, and a one time cost avoidance of about \$24 million attributable to SPV at these 27 sites alone. (DLA Fact Sheet 02FEB98) These sites were chosen by the study because Prime Vendor contracts had been in place for at least nine months. These savings and cost avoidance related to reduced need for inventory, warehouse

space, personnel, and in some cases the cancellation of warehousing Military Construction appropriations. Many individual customers, such as Mayport Naval Station, could document over \$1 million in savings and cost avoidance. Due in large part to SPV, DLA has reduced the number of DSOs from 22 in 1992, to four in 1998 as detailed in figure 3.1:

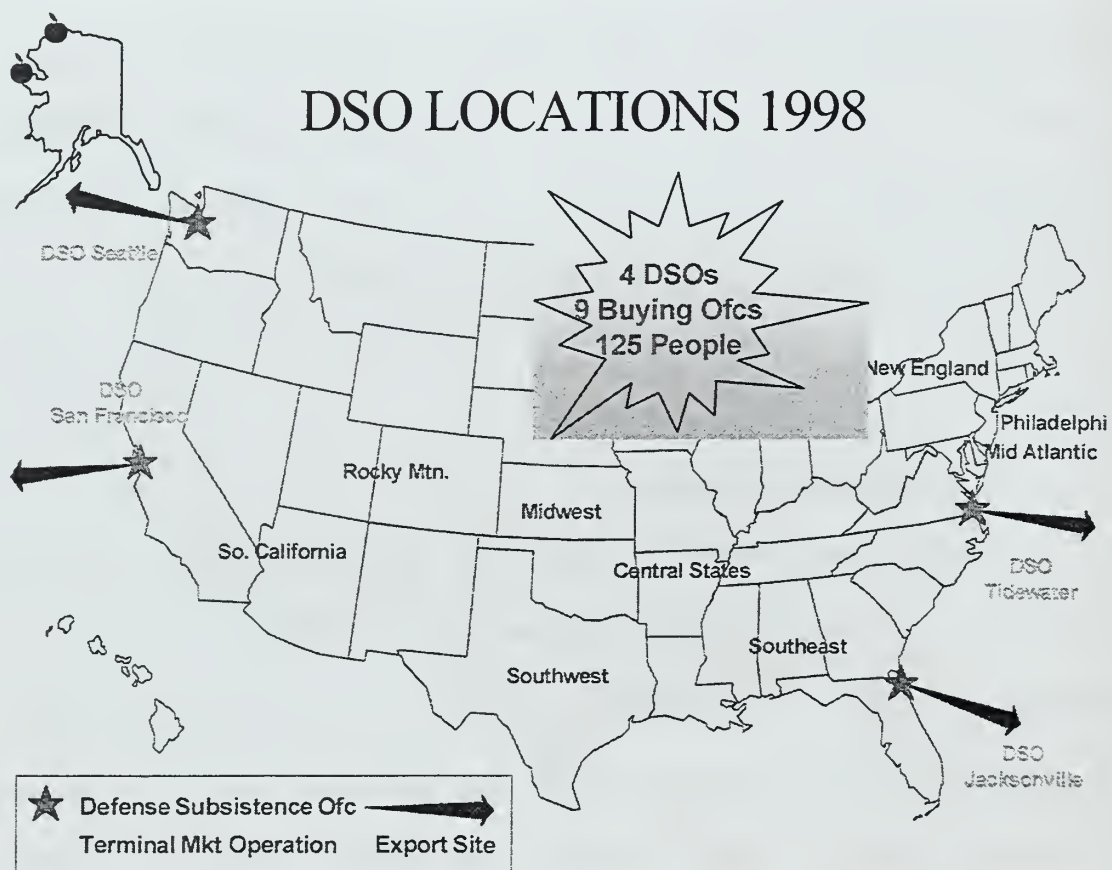


Figure 3.1. CONUS DSO LOCATIONS IN 1998 (Bland)

2. National Allowance Pricing Agreements (NAPAs)

The SPV program achieves some of its cost reductions through special contractual arrangements known as National Allowance Pricing Agreements (NAPAs). DSCP enters into these agreements with food manufacturers of items with very high volume sales. The manufacturers offer discounts in the form of "off invoice" pricing. The prices DSCP negotiates are lower than those available to the individual Prime Vendors for selected items. These agreements maximize the leverage of DSCP's consolidated buying power to lower the overall delivered price. As of March 1st, 1998, there were 78 NAPAs in place. DSCP expects to double the number of agreements by the end of 1998. (Ford) NAPA savings for the period from August 15, 1996 through December 1, 1997, a period of just over 15 months, exceeded \$2.5 million. (DLA Fact Sheet 12FEB98)

3. Food Show Program

Another support mechanism for SPV is the Food Show program. The Food Show program also affords price reductions through rebates to customers attending these events. Coordinated by DSCP, manufacturers at these shows

allow discounts for various items purchased over a subsequent time period. Total savings to customers were approximately \$400,000 from February to October 1997. (DLA Fact Sheet 12FEB98) The Food show is an ongoing program. There are twenty-four Food Shows scheduled for SPV customers during the period of February through August, 1998.

4. Wholesale Inventory

The SPV program has also allowed for reduction in DLA wholesale inventory as well. Subsistence wholesale non-war reserve inventory was reduced by \$211 million (91%) between FY 91 and FY 98, due largely to the advent of commercial business practices. A minimum of \$81 million of this total is directly attributable to the SPV program, with a potential for another \$20 million within the next 12 to 18 months. (Bland) When the SPV program is totally implemented world-wide, virtually the only wholesale subsistence inventory that will be stocked by DLA will be war reserve items such as Meals, Ready to Eat (MRE).

MREs are used by the Services to sustain individuals during military operations that preclude organized food service facilities. They are the primary individual soldier

combat ration. MREs have flexible packaging, a shelf life of three years at 80 degrees Fahrenheit, and consist of thermoprocessed entrées which include crackers, a spread, dessert/snack, beverages, accessory packet, plastic utensils, and a flameless ration heater. MREs are capable of being air dropped, and withstanding extremely cold temperatures. Due to their unique nature and mission, MREs are not managed by the Prime Vendor program as of this writing. Inventories of MREs are still maintained as part of DoD's war reserve.

5. Projections

Savings to DSCP customers over the five year period of 1997 through 2001 was originally estimated at: 1) over \$500 million in operating and maintenance costs for warehousing operations; 2) over \$250 million in inventory reductions; and 3) over \$325 million in operating and maintenance cost avoidance associated with construction of new facilities and refurbishing existing facilities. (DLA Fact Sheet JAN97)

6. Contract Administration

The cost to administer a Prime Vendor contract is also significantly less than what it had been costing the DoD in

terms of a surcharge to manage their Depots. The surcharge on average had been approximately 15% of the price of a given line item that was managed by the Depots (GAO/NSIAD 93-110). In financial terms, the cost to DoD to administer a Prime Vendor contract is approximately 1.5% of the sales of a regional Prime Vendor. This rate was based on analysis conducted on medical Prime Vendor contracts, but is consistent with costs for subsistence contracts as well.

B. AVAILABILITY OF COMMERCIAL PRODUCTS

According to the survey that the thesis researcher conducted, the single most commented on and important benefit of SPV to the end-users is the availability of commercial brand name products that it provides. The Prime Vendor contractors have a variety of commercial suppliers supporting them who have the ability to provide virtually every imaginable brand name product. This gives the Prime Vendor the ability to provide ships with the same products that are being provided to the hotels and restaurants that are under a commercial Prime Vendor contract.

The vendors are required to update the Prime Vendor catalogs on a weekly basis, which usually happens every Monday. These updates reflect additions and deletions to the catalog as well as price changes. Most of the contractors take the catalog updates very seriously and try to provide the customers with the latest products that become available on the market. The Prime Vendor that supports the Ingleside, Texas, area holds a quarterly demonstration at the local FISC to show all of their customers in that area what their new products are. (Young) The vendor actually prepares a theme oriented buffet where the customers can see and taste all of the new products.

Every afloat Supply Officer surveyed commented on how pleased their crew was with the full line of commercial products that were now available to them at the dinner table. Sailors love the fact that products like Hunts ketchup, Skippy peanut butter, Kikkoman's soy sauce, and even Starbucks coffee grounds are now common place on Navy ships that are supported by SPV. Representative comments from afloat Supply Officers whom were surveyed include:

- " We were able to significantly improve our menu quality and ease of preparation." (USS ARDENT)
- " Certainly the quality of the food stores has increased dramatically, which enables my MS's to put out a better finished product to the crew" . (USS GUNSTON HALL)
- " We get superior quality. We can now get everything a restaurant can get" . (USS TICONDEROGA)
- " The selection of products is greater and the food quality is far superior to what was available before Prime Vendor." (USS SCOUT)
- "We successfully loaded out for our deployment with our selected Prime Vendor items and have enjoyed a constant variety of different menus because of the selection available through Prime Vendor". (USS SOUTH CAROLINA)

Variety and quality of product availability has improved significantly over the old Depot system. In most cases, product availability (range) has more than doubled. Also, because of the just-in-time inventory methodology employed by SPV, products are generally much fresher than in the

past. The Depot system had a constant problem with shelf-life expiration of semi-perishable items, primarily attributable to their inventory philosophy of issuing their oldest inventory to the customer first when filling orders. Because they often used these first-in-first-out (FIFO) inventory procedures, customers often received items that had already passed their shelf-life and had to be extended by the Army Veterinarians, or surveyed and thrown away. (GAO/NSIAD 93-110)

C. FINANCIAL FLEXIBILITY

The ability to not only select over a wide range of product brand-names, but also product prices, affords Food Service Officers more financial management flexibility. Now, not only do they have more products to choose from, but they can also factor product price into their decision because most food items are offered by several different brand name suppliers at different prices. This price selection affords Food Service Officers the management ability that they need to stay within their Basic Daily Food Allowance. (Bartels)

D. INCREASED EFFICIENCY

Electronic ordering through SPVI replaces manual forms preparation, thereby increasing efficiency in dining facilities. The decreased use of manual forms drastically reduces the overall administrative burden throughout DoD. Also, the ability to prepare an order using an updated catalog that has the most recent product and price changes is a welcome tool to the customer. Ships can now completely prepare their orders electronically, although their local FISC still has to electronically submit the order for them. (Dysick) In the past, ships had to handscribe their orders, or manually type out Navy messages which, on a ship, needed to be signed by the ship's Executive Officer and brought to radio central for transmission. This often caused delays of up to two days or more.

E. REDUCED ORDER AND SHIPPING TIME

Because of the effective inventory and distribution system that the Prime Vendors use, they are able to fill orders more quickly than the Depot system was able to. The SPV contracts require vendors to provide 48 hour response

time to all customers. That success rate varies by region. The customer survey that the author conducted found that vendors are able to make deliveries within 48 hours to shore installations with excellent success. Ship deliveries generally take longer due to the fact the ships cannot currently order directly from the Prime Vendor (they need to go through FISC), and because of the coordination required to deliver orders to the piers at which the ships are based. Vendors are able to make 48 hour deliveries to ships if absolutely necessary, but they prefer to have four to five days to prepare the orders and make the deliveries.

Order and shipping time is further reduced under SPV because the vendors deliver directly to the end user, bypassing the base warehouse facility. The ability of the Prime Vendor contractors to make deliveries more frequently than was done in the past is another benefit of SPV which leads to lower on hand inventory levels.

F. LOWER END-USER INVENTORIES

By adopting the just-in-time inventory methodology which SPV provides, DoD is now able to manage smaller end-user

inventories. In the past, shore installations carried an average of 32 days' worth of provisions, and ships carried even more. This was because order and shipping time was so long and because of a lack of confidence that end-users had in DLA's ability to provide what had been ordered.

(GAO/NSIAD-93-110)

As users become more confident in the Prime Vendor's ability to deliver what they want and when they want it, the trend has been that end-users have started to hold less inventory on hand. (Welsh) Maintaining lower inventory levels has several positive aspects. First, less money is tied up in retail level (end-user) inventories throughout DoD. Second, because there are less items in the storeroom, inventories can be conducted more quickly. Also, it becomes easier to do daily food item breakouts and breakbacks to and from the storerooms which leads to increased accountability. Third, fewer food items are damaged during heavy seas, and because items are fresher, there is less spoilage due to shelf-life expiration. Therefore, fewer formal surveys (DD Form 250) need to be completed which saves administrative man hours. (Bartels)

G. POTENTIAL FOR ONE-STOP SHOPPING

SPV has made acquiring products easier for afloat units, and the SPV program has the potential to allow end-user customers the ability to order all of their subsistence items from one source. Currently, SPV contracts do not require vendors to provide FFV, bread or dairy products, and end-users acquire these items from elsewhere. However, most vendors could provide these items upon request. (Ford)

The SPV vendors, all of which support numerous commercial companies, are already in the business of providing FFV, dairy and bread to their commercial companies. Labatt's Distribution Company, which is the vendor on contract in Ingleside, Texas, claims to be ready and able to start supplying FFV to the ships they are supporting. (McCormack)

H. SUMMARY OF CHAPTER HIGHLIGHTS

This chapter detailed several of the benefits of the SPV program. It explained the various ways that cost savings are realized through SPV. It also explained how SPV has positively impacted the Fleet.

IV. RISKS AND CONCERNS OF SPV

This chapter examines some of the risks and concerns associated with the SPV program. The chapter examines the risks of outsourcing DoD's inventory management functions, and discusses the concerns addressed during the Naval Logistics Wargame 2007. This chapter also presents the results of the only Navy afloat SPV test that has been accomplished to date.

A. OUTSOURCING DOD INVENTORY MANAGEMENT

DoD is challenged to live within the boundaries of their funding constraints while maintaining the operational readiness of United States combat forces at the highest possible level. Meeting this challenge will require the innovative use of information and technology.

Warfighting and support of the warfighter have become increasingly complex as we near the 21st century. The job of the logistician has become increasingly more difficult, with ever more sophisticated hardware to support and fewer dollars available to maintain that support. These unparalleled challenges are recognized in *Joint Vision 2010*,

the Chairman of the Joint Chiefs of Staff's outline for success in meeting our country's future military commitments. That document promotes a concept called "Focused Logistics," which emphasizes logistics precision in support of the battlefield. It stresses the need to manage logistics support to ensure that the customer gets the right part, at the right place, in the minimum possible time. These goals aren't new. What is new is the full-fledged commitment of the military to achieve them with exactitude, avoiding unnecessary expenditures in time as well as inventory and transportation costs. (Stewart)

As discussed in Chapter II, SPV essentially outsources DoD's subsistence inventory management to the private sector. With the exception of certain base warehousing facilities which will be maintained, the majority of DoD's assets used to manage subsistence inventory will be eliminated in favor of transferring the function over to commercial contractors.

The commercial sector has proven that they can manage inventory more effectively and more efficiently than can DoD. Given today's austere budget climate, global threat

level, and acquisition reform environment, DoD must therefore embrace the commercial practices for subsistence inventory and distribution. This comes with an associated risk level which must be managed.

The primary challenge to industry will be how best to deal with the surge in demand for supplies during times of military mobilization. Demand forecasting will become an even more important issue. The Deputy Director of Procurement at DLA puts it this way, " We have to be able to rapidly respond to needs, and in years past we did that by holding inventory. Because holding inventory is too costly, we have to prove we can tap into the commercial distribution channel and support the warfighter with equal and better sustainment." (Jenkins)

The sections that follow will discuss ways to validate the contractors' ability to provide surge and sustainment support, and will address ways that DoD can mitigate the risk that is associated with outsourcing inventory management functions.

B. NAVAL LOGISTICS WARGAME 2007

DoD concerns of SPV were officially voiced during the Naval Logistics Wargame 2007 (NLWG-2007) which was held on 6-10 October 1997 at the U.S. Naval War College, Newport, Rhode Island. This fourth biennial wargame provided a structured environment in which senior logisticians from DoD, Federal agencies, and industry met to evaluate the capability of Naval Logistics to support operational forces over a spectrum of levels of conflict. This spectrum included peacetime forward presence, humanitarian assistance, crisis response, and regional contingencies. NLWG-2007 analyzed the doctrine, organization, and execution of Naval and selected joint logistics capabilities in support of operating forces and defined the risks associated with capability shortfalls. The objectives for NLWG-2007 were to:

1. Stress Naval Logistics capabilities through a range of scenarios from a multiple Lesser Regional Contingency (LRC) to a single Major Theater Warfare (MTW) wargame scenario;
2. Assess the integration of operations in the littorals

and expeditionary sea-based logistics;

3. Evaluate the wargame scenario's impact on logistics support with regard to force structure, operational logistics, human resources, and future technology;
4. Develop solutions to identified shortfalls emphasizing innovative thinking, rather than resource intensive answers; and
5. Assess the integration of Naval Logistics with Joint Vision 2010.

Analysis of the wargame scenario and development of related support issues were conducted within all areas of logistics support. An assessment was conducted to determine if each logistics function could fully support operations defined by the wargame scenario in the areas of Naval Logistics Capabilities, Expeditionary and Sea-based Logistics, and Joint Vision 2010 Focused Logistics.

NLWG 2007 highlighted several issues of concern. Each concern was characterized as being either a major issue, minor issue, or an emerging issue. A major issue is characterized as something that severely impacts the

capabilities to provide the logistics support that is needed to meet the operational requirements of the scenario. The following issues, which relate to SPV were raised.

a. Ability of Prime Vendors to support contingency requirements has not been substantiated.

This was considered a major issue. The logisticians who conducted NLWG 2007 felt that Prime Vendor contracts could have a negative logistics impact. They reported that relying only on the Prime Vendor process to support contingencies may result in the lack of supplies after an initial surge to support a deployment. Services may have to compete with each other and with private industry for suppliers and supplies. Industry efficiency will be lowered when competing demands are received and not coordinated, and readiness and mission sustainment may be adversely affected. (Stewart) The NLWG logisticians are not concerned about the Prime Vendor's ability to meet the initial surge requirements involved with a large scale loadout (like a battlegroup loadout), but they are concerned about the Prime Vendor's ability to sustain support for a large scale operation.

The NLWG 2007 recommended the following:

- The Services jointly validate the ability of Prime Vendors to support an acceptable level of surge and re-supply.

The Navy has tested the Prime Vendor's ability to support a deploying carrier battlegroup on 96-hour notice, the results of which will be discussed later, but a joint test has not been conducted. There are several situations in which the Services might be competing for the same resources within a geographic area, making it difficult for the vendor's to satisfy all requirements simultaneously. Their ability to do so should be evaluated in a Joint exercise conducted by DLA.

- Validate and retain the war reserve inventory to cover jointly identified shortfalls of critical items.

DoD needs to be careful with the war reserve inventories. Care must be taken to avoid spending dollars unnecessarily on war reserve items. War reserve items should be limited to only the most critical items, and only

items that vendor's cannot be relied on to provide in time of crisis. Combat rations are one example.

- Jointly prioritize and time the flow of requisitions to the acquisitioning activities.

This is an important recommendation which the Services need to give consideration. For the case of the Navy afloat, an organization needs to be designated as the activity which will prioritize requisitions that are given to the Prime Vendor. The author recommends the Operational Fleet Commander be that activity. The Operational Commander will assume command of the ships from the Type Commanders once the ships are certified and designated to deploy. The Operational Commander can best provide guidance to the Prime Vendor in terms of which ships are the most critical and will be in the best position to facilitate an effective loadout process.

- b. The industrial base surge planning and trigger process for troop support items (food, clothing, etc), spares, and critical munitions is reactive vice proactive.**

This was considered a minor issue that had the following logistics impact: The inability of industry to

supply or replace troop support items, spares, and critical munitions when needed degrades readiness and negatively affects mission completion. Attrition rates could increase. Inter-Service competition will exist among available supplier capabilities for certain critical items, unless a Joint coordinated surge planning and trigger process is developed. The lack of a process for considering overlapping Service requirements will inhibit industry from responding in a timely, efficient, and cost effective manner.

NLWG-2007 recommended the following:

- The Services fund, and DLA manage, inventory levels high enough to cover the first 30-60 days of requirements.

The author does not concur with this recommendation as it applies to subsistence items. This is exactly the type of mentality that DoD has been trying to get away from. DoD cannot afford to spend money maintaining inventories of that magnitude. Instead, contractual relationships with commercial industry are the answer.

- Acquisition activities should use surge option clauses where required.

Surge option clauses are required in SPV contracts. Care needs to be taken to craft these clauses in such a manner that the contractors are forced to comply with the Navy's most pressing possible surge requirements. As of this writing, the DLA Contracts Management directorate is in the process of writing the surge clause which they plan to include in future SPV contracts. Currently there are no actual surge clauses in the contracts. The contracts merely state that the vendors are required to have a formalized surge plan and that they should be prepared to support surge requirements.

c. There is a need for Commercial Asset Visibility.

This was considered an emerging issue with the following logistics impact: The ability to accurately assess industry capability is limited by the lack of supplier asset information that is provided to DoD. The ability to gauge readiness is degraded when information regarding supplier asset availability to support critical readiness and sustainment capability is not made available

to DoD.

NLWG-2007 recommended that:

- DoD develop agreements with commercial suppliers for electronic access to production, manufacturing, and distribution information for planning purposes.

To give DoD visibility of the Prime Vendor's assets would be an exceptional tool for gauging readiness. Logistics planners would have real time access to Prime Vendor inventories which would give DoD a clear sense of the vendor's abilities to meet possible upcoming surge requirements. This tool would help to mitigate the risk associated with vendor managed inventories.

- Where appropriate, make DoD inventory visible to suppliers.

Given the current information technology that is in place on the waterfront, it is possible for ships to electronically report their inventories. Making shipboard inventories available to the suppliers who support them can only help that supplier be better prepared to do so. The author recommends the Navy develop a reporting requirement

which requires ships who are available to support surge requirements (i.e. ships that are not in the shipyard) to electronically pass their inventories to their Prime Vendors. This could best be done via a third party, such as the Type Commander or local FISC.

The NLWG 2007 provided some valuable insight which officials involved with administering SPV contracts should consider. These recommendations can help improve readiness and minimize risk.

C. SPV SURGE EXERCISE

The initial Navy Surge Exercise test of SPV was conducted October 27 through 30, 1997. The exercise was conducted partly in response to the NLWG-2007 after action report. The exercise was administered by DSCP in the Virginia Beach area. PYA/Monarch of Virginia Beach, R&R Group, and DSO Tidewater were the three activities involved with providing subsistence during the exercise. The exercise was designed to test the logistics capabilities for short fused battle group subsistence load-out requirements. This was a "paper" exercise, as no actual provisions were handled.

The system was tested under extreme compression of time and place.

The exercise used the following scenario:

- a) Unexpected military intervention required an operational surge to the Middle East.
- b) A Carrier Group and Amphibious Ready Group were required to deploy within 96 hours. The Battle Group consisted of one aircraft carrier (CVN), two guided missile cruisers (CG), one guided missile frigate (FFG), one guided missile destroyer (DDG), one destroyer (DD), two amphibious assault ships (LHD) and (LPH), two dock landing ships (LSD), and one fast combat support ship (AOE).
- c) All elements of the Battle Group, except for the AOE were loaded and embarked from the Norfolk area. The AOE was loaded at the Naval Weapons Station, Earle, New Jersey.
- d) All elements of the Battle Group had an initial load of 21-30 days onboard and required a 60 day loadout within 96 hours.

- e) The AOE was empty and required a full dry, freeze, and chill loadlist. For purposes of this exercise the AOE was not loaded with end use (their own) requirements.
- f) Fresh fruit and vegetables were supplied by the Defense Subsistence Office, Tidewater.
- g) Market ready items were not tested.

1. PYA/Monarch of Virginia Beach

PYA/Monarch is the SPV contractor for all of the surface ships in the Norfolk area with the exception of the Combat Logistics Force ships. PYA/Monarch is a large, full service food distributor whom has been in the distribution business for several years. They were responsible for the loadout of all ships involved in the exercise except for the CARGO loadout of the AOE. They provided or sourced all product requested within 48 hours, except for three items, which they provided in partial quantities. The DSCP account manager contacted adjacent Prime Vendors to source these three items, which they did successfully. (Bland)

Two problems were randomly injected into the scenario to further test the Prime Vendor's ability to react to unanticipated events or occurrences. Some products were

rejected for defect, and PYA/Monarch was required to locate a second source, which they did effectively. (Bland)

Accelerated delivery of product to one ship was requested. PYA demonstrated their ability to respond, based upon 24-hour availability of transportation assets and personnel. A total of 35 trailer loads would be required to deliver product to the ships. PYA/Monarch has 15 refrigerated trailers and eight tractors exclusively assigned to support the Navy on any given day, and an additional 74 refrigerated trailers and 62 tractors available to assist from their commercial operations.

2. R&R Group

R&R Group is another large, well-established food distributor, who has the Combat Logistics Force contract in the Norfolk area. They provided or sourced all product requested for the CARGO loadout of the AOE within 48 hours. All chill and freeze items were filled in their entirety as ordered with no substitutions. All dry items were filled, however, 14 lines were substituted. All substitutions involved unit pack substitutions, not product substitutions.

R&R was asked to demonstrate their ability to deliver product to Earle Naval Weapon Station in New Jersey by the required delivery dates. R&R indicated 12 trailers of dry product would be scheduled for delivery on the third day of the exercise, and 16 trailers of freeze and chill items were scheduled for delivery on the fourth day of the exercise. Using assets from alternative sources, R&R made available sufficient tractors and drivers, and proved that they could load out the trucks and make deliveries within the allotted time frames. (Bland)

3. Surge Exercise Summary

DSCP gathered the following lessons learned as a result of this surge exercise:

- Further refine the range and depth of subsistence requirements.
- Substitution items require special receipt attention.
- PYA/Monarch needs to provide written surge/mobilization procedures.
- Ship prioritization may enhance results. (Bland)

Overall, the results of the test were outstanding. PYA, R&R, and DSO performed exceptionally well in meeting exercise demands, as 100% of requirements were satisfied for all ships in the allotted 96 hours. It should be pointed out that this was not a joint exercise, as the other Services were not involved. A more realistic scenario would be a joint test involving all major activities in a given geographic area. A joint test should be conducted in order to determine if the Prime Vendors can support the same short fused surge requirements when competing with other Services for resources. These resources in some cases may be provided by the same suppliers.

Although the Prime Vendors did demonstrate their ability to source the provisions, and to make available the appropriate amount of drivers and transportation assets, there are inadequacies of a "paper" surge test. By not actually delivering the subsistence to the ships, the vendors showed that they could source the product and make available the transportation assets, did not prove that they could make deliveries to the ships on the piers during the confusion of a real surge scenario.

During a real surge exercise, the base security level would be heightened, requiring drivers to have valid security clearances, and possibly subjecting their vehicles to searches at the gates. The piers will be very hectic, with other vendors making deliveries, various repair activities at work, ammunition onloads in progress, Marine Corps detachments embarking the Amphibious ships, and more. Material handling equipment, including forklifts and cranes, will be at a premium which will make off loads from the vendor trucks and onloads to the ships challenging.

Although a test involving actual deliveries to ships under a realistic surge scenario would be costly and difficult to administer, it is one way to find out for sure if the Prime Vendors will be able to satisfy a likely surge scenario (i.e. a battlegroup loadout on 96 hour notice).

D. SUMMARY OF CHAPTER HIGHLIGHTS

This chapter discussed the important concerns and risks that are associated with SPV. It also presented the results of the only afloat SPV test that the Navy has conducted to

date. The chapter also summarized and provided comment on the NLWG 2007 recommendations as they relate to SPV.

V. SURVEY RESULTS AND LESSONS LEARNED

This chapter presents a summary of the survey that the researcher conducted which details the effectiveness of the current SPV process. It also details the lessons learned by the staff of Commander, Naval Surface Forces, U.S. Atlantic Fleet regarding SPV.

A. SURVEY BACKGROUND

The data presented in this study were gathered through a random survey of 17 Supply Officers who are customers of SPV contractors, interviews with six DoD officials who are involved with administration of SPV contracts, and interviews with two contractor representatives. The survey was designed to determine the effectiveness of the SPV program in satisfying customer requirements, and to determine the areas that needed improvement.

The afloat Supply Officer survey consisted of ten core questions. The interviewees were encouraged to elaborate on any response, and to comment on the benefits and problems of SPV, as well as provide their recommendations for improvement. This survey was intended to collect opinions

from the experts in the fleet who have experience working with SPV. A copy of the survey instrument is included in Appendix B.

B. THE RESPONSES

1. Question one:

Is there effective communication between the afloat customers and the SPV contractor?

Yes: 2 No: 10 Unsure: 5

Ten of 17 Supply Officers indicated that there was not effective communication. The ships are not permitted to order directly from the contractor; instead they must place their order through their local FISC. There is no established line of communication between the ships and the contractors who support them.

The Supply Officers based in Ingleside, Texas and Pascagoula, Mississippi pointed out the fact that their contractors are based significant distances from where the ships are located. The ships located in Ingleside receive their deliveries from a contractor who is located in San Antonio, which is over 100 miles away. The ships homeported

in Pascagoula receive their deliveries from a contractor located in northern Alabama, which is over 200 miles away.

Ships in Norfolk and Mayport are supported by contractors who are located across town. This geographic dispersion seems to create an out of sight, out of mind mentality which impacts communications between the two parties.

Four Supply Officers mentioned that they would like to have a designated sales representative with whom they could discuss products and concerns. By having a sales representative to talk to who is familiar with the full range of products that his/her company can provide, Food Service Officers could use their help to develop menus that take advantage of all the products that the vendors have to offer. These Supply Officers were of the opinion that if they were able to speak with the vendor directly, they could benefit by explaining their needs and desires to the contractors, thereby enabling the contractors to better support the fleet.

Regarding customer service policy, the SPV contract as written states: " The Prime Vendor shall treat each of the ships covered under the contract as one of their best

customers. Therefore, any treatment and/or customer service policy given to other essential accounts shall also be given to the customers covered under the contract." (Contract, p. 21) The contract also states: " The contractor shall provide customer service representatives and specific points of contact for customer service assistance, especially in respect to emergency service requirements, product quality complaints, shipping discrepancies, and damage. Toll free telephone service will be set up for customers to contact the customer service representative." (Contract, p.71)

The researcher recommends that this provision be rewritten such that vendors are contractually obligated to provide a customer service representative who is required to visit the ships regularly to provide clarification and assistance. Discussion with contractor representatives indicated that most Prime Vendors provided that type of service to their best commercial customers.

2. Question two:

Are the contractors making deliveries to the ships as scheduled?

Yes: 2

No: 10

Unsure: 5

Stores delivery issues were the single biggest problem addressed during the survey. Ten of 17 Supply Officers complained that they often do not receive their deliveries as scheduled. In several cases, it was reported that deliveries did not occur on the correct day they were scheduled for. More often stores would be delivered on the correct day, but at the wrong time. Often this meant receiving a delivery in the afternoon that had been scheduled for the morning.

Supply Officers reported that this significantly impacted the crew's ability to execute the ship's plan of the day. Often ships would have ammunition onloads, or major maintenance that required pier cranes, or working parties scheduled for other functions. To coordinate all that needs to be done in a given day, ships require the ability to plan major events, such as stores onloads, for a specific time. The afloat Supply Officers indicated that they want to be able to specify the date and *time* of their stores deliveries, and emphasized the importance of deliveries occurring as scheduled.

The ship SPV contracts as currently written do not provide clear guidance regarding delivery time requirements. The contract states that the vendor must provide delivery within 48 hours after order placement unless otherwise required by the ordering officer. The contract states all deliveries will be coordinated and verified by the FISC. (Contract, p.2) The contract does not provide incentives to the vendors for timely deliveries, nor does it penalize them for failing to deliver as scheduled.

The researcher recommends that FISCs get more involved in the coordination of Prime Vendor deliveries to help ensure that deliveries occur as scheduled. A FISC representative who accompanies the vendors delivery vehicles to the piers and serves as a liaison with ships' force and Public Works personnel could provided substantial assistance in this area.

3. Question three:

What problems, if any, are you having with the deliveries?

In addition to deliveries not occurring as scheduled, Supply Officers reported the following:

- Drivers not waiting for all items to be inspected and counted before leaving.
- Pallets stacked too high.
- Like products not stacked together.

Regarding drivers not waiting for all items to be inspected and counted, the contract states: " All food items must be inspected for count, condition and quantity and approved by the receiving ship's authorized personnel before acceptance can be made." (Contract, p. 3) Ship's forces personnel and FISC representatives need to ensure that vendors do not leave the pier until all items have been counted and inspected. It is incumbent upon ship's force personnel to meet the vendor's delivery vehicle upon arrival. Deliveries being made as scheduled will facilitate this. Problems should be reported to the DSCP contracting officer.

Regarding pallet height the contract states: " If using a standard commercial pallet the maximum height should not exceed 54 inches including the pallet." (Contract, p. 61)

Ship's force and FISC personnel need to police the vendors to ensure compliance, reporting discrepancies to the contracting officer.

4. Question four:

Do you find that the SPV catalog is accurate and user friendly?

Yes: 6

No: 6

Unsure: 5

Six Supply Officers responded that the catalog was not complete in terms of listing all of the items that the contractor could provide. Also, it was pointed out there were several items listed in the catalog that the contractors could not provide.

Three survey responses indicated that the ships did not receive weekly catalog updates until late on Monday or on Tuesday, which caused them a delay in putting together their order.

Two Supply Officers commented that the catalogs listed some consumable items like paper products and serving utensils which, when ordered, were listed on the same

receipt as the food items. This makes the records keeping process difficult.

The contract states only that the contractor shall provide a catalog order guide, with descriptions and pack sizes to each of the customers serviced under the contract. (Contract, p.71) The researcher recommends that the contracts be modified to include a statement which requires the contractor to provide a separate receipt document for any non-subsistence items ordered from the catalog. This will facilitate the process of recording receipts.

5. Question five:

How well has SPV supported you while on deployment?

None of the Supply Officers surveyed had actually completed a deployment whereby they were supported by SPV, although four were planning for an upcoming deployment. These Supply Officers were concerned that the CLF ship that supported their battle group would be loaded out with different items which did not support their menu. Because the CLF ships are supported by a different contractor and

have storage limitations, this proved to be a pressing concern.

Contracting Officers should ensure that the core item list for the CLF ship contracts is the same as the core item list for the surface ship contracts. Some discrepancies were detected in the Norfolk solicitations.

6. Question six:

Does SPV satisfy your short fused (one hour to 24 hour) delivery requirements effectively?

Yes: 13 No: 2 Unsure: 2

Of the responses, 13 of 17 reported that the Prime Vendors did an excellent job satisfying short fused requirements by making deliveries within 24 hours when requested. The contract specifies that: " The contractor shall provide same day emergency service to the FISC." (Contract, p.66) The contractors are required to make two such emergency orders per month, per ship, at no additional charge. Any emergency order(s) above and beyond this minimum may be charged at a to-be-determined rate as negotiated with DSCP.

Survey responses indicated that ships have a difficult time getting requisitions done for items that they need within one to three hours of getting underway. Now that FISCs are out of the business of stocking subsistence, and in many cases the supporting SPV contractor is over 100 miles away (Ingleside and Pascagoula), ships can no longer walk through requisitions themselves. This makes it difficult for ships to get items within the hour as they could when the FISCs were stocking subsistence.

A solution would be to allow the afloat Supply Officers to use their Government credit cards to purchase subsistence items in this situation. The researcher recommends that DLA working in conjunction with the Type Commanders develop a procedure whereby ships can use their credit cards to satisfy emergency subsistence procurements.

7. Question seven:

Has SPV had any negative impact on your menu?

Yes: 0 No: 17 Unsure: 0

Every Supply Officer response (17 of 17) indicated that their menu has improved substantially with SPV. The ability

to use recognized name brand items has measurably improved the quality of afloat food service operations.

8. Question eight:

What impact has SPV had on your records keeping process?

Supply Officers recognized that having electronic catalogs allowed the records keepers to prepare their orders more quickly and easily, and receiving electronic receipts made the process of posting receipts less time consuming than it had been prior to SPV.

The survey responses also indicated that the SPV records keeping process did present some new challenges. Because of the variety of brand name items available, and the different case sizes, receipt processing requires close scrutiny. The FSM system will create a temporary food item code, known as an "X" code, to an item which has been received for the first time, even though it may be very similar to another item. For instance, if a ship had received sugar, food item code H23 in 5-10 pound bags, and then the ship were to receive a subsequent order of sugar in 4-10 pound bags, FSM

would create an "X" code for the new sugar. This would cause the ship to have sugar on inventory under two different food item codes which can create inventory problems.

Because the Prime Vendor program provides multiple choices of brand names products for the same items, another records keeping challenge is created. For example, 14 ounce ketchup bottles are available from Heinz, Hunts, and Delmonte. Each of these different brand name ketchup bottles require a unique navy stock number (NSN). The Food Service Management (FSM) system assigns a different food item code (FIC) to each NSN. Using the ketchup bottle example, this results in separate inventory line items for each type of ketchup. This is a problem which creates inventory difficulties for afloat food service operations.

The author's recommendation is to upgrade the FSM system so that it has the ability to group multiple NSN's under one FIC. DLA or NAVSUP should fund the development and distribution of this FSM update.

SPV training should be emphasized at Navy training schools such as the Navy Supply Corps School and Mess

Specialist "C" schools. Type Commander training teams and Navy Food Management Teams should provide SPV training to shipboard personnel during scheduled training visits and upon request.

Frequent product price changes cause Food Service Officers to conduct menu financial reviews more frequently than in the past. More attention to detail is required by ship's force personnel when placing orders and processing receipts to ensure that the ship's cycle menu remains affordable.

9. Question nine:

Are you able to stay within Basic Daily Food Allowance (BDFA) limits?

Yes: 14 No: 0 Unsure: 3

The overwhelming answer (14 of 17) was yes. As mentioned, the menu did require more financial attention than it had previously due to changing prices. In the three survey responses that were not positive, the Supply Officers indicated they were confident they would be able to stay within BDFA limits after making several menu changes.

10. Question ten:

Would you prefer to have SPVI on board your ship so that you could order directly from the SPV contractor?

Yes: 9 No: 4 Unsure: 4

Nine of 17 answered yes. Some of the more inexperienced Supply Officers actually liked going through FISC because it allowed for a third party to double check their order, often eliminating mistakes. The nine Supply Officers who indicated they wanted SPVI capability believed it would allow them to reduce order and shipping time.

The SPV contract currently specifies that all orders will be placed by the FISCs although DSCP has made the recommendation to DLA that ships be given SPVI capability. A decision from DLA is pending as of this writing. (Ford) The author concurs with DSCP that ships should be given SPVI capability.

C. SPV DISCREPANCIES AND RECOMMENDED SOLUTIONS

Based on discussion with officials at DSCP, various FISCs, and Type Commander representatives, several other

contractual SPV discrepancies have been discovered.

Following each discrepancy is a recommended solution:

1. Problem: Usage Data

Poor usage history data were initially provided to Prime Vendors to assist in determining and/or establishing adequate start up inventory levels. This caused the vendors, especially in the Norfolk area, to have difficulty fulfilling requirements in the first several weeks of contract performance.

Recommendation: Stores consumed data, by region, should be used in conjunction with the procurement history data information that is provided by DSCP. The Navy Supply Systems Command code 51 personnel, who track subsistence usage for the entire fleet, should compile the stores consumed data and provide them to the Prime Vendors through DSCP. These usage data will help the vendors in the initial planning phase.

2. Problem: Core item list does not match CARGO

Each solicitation includes an 120 item list of core items that the Prime Vendors must provide to the ships they support. It is important for uniformity purposes that this core item list match the Consolidated Afloat Replenishment Guide Overseas (CARGO) food item list. The CARGO details the food items that the replenishment ships (CLF force) carry and will use to support ships when they deploy.

Recommendation: DSCP SPV contracting officers should always ensure that the core item list is consistent with the CARGO. SPV contracting officers should be placed on the initial distribution list for CARGO updates to ensure contract accuracy is maintained.

3. Problem: Substitutions

The contract states that all supplies shall be furnished on a "fill or kill" basis, meaning that only the actual items ordered will be delivered and that no substitutions will be made. This policy creates problems for ships especially when they are getting underway soon

after they receive stores and do not have time to order substitutions for the items that were not in stock.

Recommendation: Give the ships the option of whether or not to use the fill or kill policy. Let the ships elect to have the vendor make substitutions as necessary to fill requisitions for items that are not in stock. When they elect to allow the vendor to make substitutions, ships will have to rely on the vendors to make appropriate substitution decisions. Given the ability to make substitutions as necessary will allow the vendor to better support their ships.

4. Problem: Packaging

Commercial cartons/packaging in many cases did not hold up to the bulk storage shipboard environment. Excessive air space in boxes is the primary cause. Chill and freeze items are the major concern. Weight of meat boxes often exceeded 60 pounds and is not manageable by the average person. Additional freeze items were delivered in 10 pound cases (i.e., preformed hamburgers, diced pork, etc.) and cannot withstand excessive handling and long term storage.

This problem is unique to the Prime Vendor process as vendors are delivering items packaged in the same manner they are packaged for commercial customers. These commercial customers often have larger storage capacity, more automated equipment to load boxes into their storerooms, and can maintain a lower on hand balance of food items because they have the ability to take deliveries at any time (they don't go to sea).

Navy ships require boxes that are not so heavy that they can't be handled by several people as they are transported from the pier to the storerooms. The boxes also need to be able to withstand the pressure of being stacked from the floor to the ceiling, often with up to 300 to 400 pounds stacked on top of them.

Recommendation: Solicitation should spell out these issues to ensure good packaging (i.e., Type II) and minimize air space. The contract states that: " Case weights should not exceed 60 pounds. Case weights for high volume items should not be less than 40 pounds. Packaging for shipboard stowage may require deviation from standard commercial pack. Product should be packed in a snug fitting case. Case head

space should be kept at a minimum to accommodate stowage aboard ships." (Contract, p.60-61)

This statement should be amended to include box strength and durability requirements that conform to the shipboard environment.

Another packaging problem that is being experienced is that often packaging is for meats is not vacuum packed which often causes freezer burn. The contract states: " All packaging and packing shall be in accordance with good commercial practice. All beef, pork, lamb, and veal items shall be packaged in a vacuum and gas flushed, or vacuum packed, and wrapped in a polyethylene wrapping, or vacuum packed." (Contract, p.60)

Afloat Supply Officers and FISC representatives should ensure to inspect packaging and report discrepancies to the vendor and the contracting officer.

5. Problem: Labels

Often labels are missing or cannot be easily read to determine expiration date, date of pack, or best use by date. This is important information which must be included

on every container of food delivered to a Navy vessel. The contract states that this information is mandatory.

(Contract, p.60)

Recommendation: Ships should be reminded to ensure that product labels are included on everything that they receive. They should inform the vendor, the FISC, and DSCP if discrepancies exist.

6. Problem: Approved Source List not used

In some cases, Prime Vendors have delivered products to ships which were procured from suppliers who were not on the Navy Supply Systems Command's "Approved Source List."

Recommendation: Include a statement in the contract that requires the Prime Vendors to deliver items manufactured by suppliers who are listed on the "Approved Source List."

7. Problem: Invoicing

At initial contract start-up, all required data needed on the Prime Vendor invoice were not available (i.e., total quantity of units delivered, unit of issue, and unit price).

Recommendation: Invoices must reflect all necessary information required by the end user, SPVI operator and the Prime Vendor. Include in the solicitation that the invoice must include Government unit of issue and price.

D. SUMMARY OF CHAPTER HIGHLIGHTS

This chapter presented the customer survey data. It also presented a list of discrepancies which were compiled through survey and interview with several SPV officials at various commands. Also presented were recommended solutions to those discrepancies.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

In general, the Subsistence Prime Vendor program is a valid resupply method. The afloat Supply Officers whom are supported by SPV are thrilled with the availability of a full range of commercial products, as well as the reduced order and shipping time that SPV provides. SPV represents a shift in DoD's strategic thinking that is consistent with the Navy's logistics goals which include developing solutions emphasizing innovative thinking, rather than resource intensive answers.

Transferring subsistence inventory management to the private sector represents a manageable amount of risk for DoD. As was discussed in Chapter IV, there are several things that DoD can do in order to mitigate the risk associated with SPV. These include: developing logistics surge mobilization plans which provide guidance to the Prime Vendors; conducting joint surge exercises; employing techniques to provide inventory visibility electronically both to DoD and to the Prime Vendors.

As discussed in Chapter V, there are several problems with SPV, the resolutions of which require contractual and administrative changes, and improved communications between customers and contractors.

B. ANSWERS TO RESEARCH QUESTIONS

The primary research question was:

What impact will the Defense Logistics Agency's Subsistence Prime Vendor program have on Navy afloat food service operations?

The SPV program has had a positive impact upon the quality of afloat food service operations. The availability of name brand commercial products has been a huge success, order and shipping time has been drastically reduced, and use of automation has facilitated the ordering process.

The secondary research questions were:

1. What is the traditional DoD subsistence distribution process?

A description of the traditional food distribution process was presented in Chapter II, Section C. Under the traditional system, subsistence items were procured using delivery order contracts and then stored in DoD owned depots, DSOs, and base warehouse facilities.

It was determined that the traditional system was too expensive and cumbersome. GAO recommended that DoD adopt commercial inventory distribution practices for subsistence in order to reduce infrastructure costs and improve customer service.

2. What is the Subsistence Prime Vendor (SPV) program and how does it work?

A complete description of the SPV program is provided in Chapter II, Section D. The SPV program is designed to use commercial practices for food distribution. It is an attempt by DoD to tap into private sector logistics approaches. Specifically it is designed to: (1) use "just-in-time" business practices that shift responsibilities for storing and managing inventory to commercial suppliers; (2) shift responsibility for managing items to suppliers through

the use of long-term agreements with only a few key suppliers; (3) use direct delivery practices that bypass the need for intermediate handling and storage; and (4) eliminate paperwork and speed up ordering by using electronic ordering systems and bar coding. Adopting the commercial distribution practices was intended to help DoD reduce inventory infrastructure, inventory levels, and handling costs. SPV utilizes indefinite quantity, indefinite delivery (IDIQ) type contracts with commercial food distributors to deliver subsistence products directly to the end-user, bypassing the depots and base warehouse activities.

3. What are the expected benefits of SPV?

Chapter III details the benefits of SPV. The benefits include cost savings via infrastructure reductions, pricing agreements, and wholesale inventory reductions. Other benefits include the increased availability of commercial products, financial flexibility for afloat food service operations, increased efficiency, reduced order and shipping times, and lower end user inventories.

4. What are the expected risks and concerns of SPV?

The risk and concerns of SPV are addressed in Chapter IV. The primary risk of SPV comes from relinquishing inventory management and distribution functions and relying on the commercial sector to satisfy all of the Navy's requirements. Routine deliveries are not considered a major concern, but the Prime Vendor's ability to satisfy full scale surge requirements is a concern. Their ability to do so has not been validated in a joint exercise wherein the Services (Navy, Marines, Army) were competing for resources. Also, there is no contractual incentive for Prime Vendors to support DoD's full scale, short notice requirements.

5. Given a likely surge scenario, what problems might SPV contractors encounter, and what risks do they present to the fleet?

Given a likely surge scenario, similar to the one presented in Chapter IV, Section E, there are several problems which the SPV contractors might encounter. Depending on their geographic proximity to other major

military installations wherein other Services may also be preparing for full scale deployment, the Prime Vendors may be competing with the other Services for resources that are provided by the same suppliers. This competition for resources could jeopardize the Prime Vendor's ability to support their customers.

Other surge scenario problems are discussed in Chapter IV, Section B.

6. What contractual measures or other actions can be taken to mitigate problems that are being experienced with SPV?

Several contractual and administrative measures intended to improve the current SPV process were presented in Chapter IV and V.

APPENDIX A

LIST OF SUPPLY OFFICERS SURVEYED:

1. USS ARDENT (MCM 12), LT Blackburn, 14FEB98
2. USS GETTYSBURG (CG 64), LT Luna, 04MAR98
3. USS GLADIATOR (MCM 11), LT Ingram, 17FEB98
4. USS GUNSTON HALL (LSD 44), LT Mitchell, 20FEB98
5. USS JOHN L. HALL (FFG 32), LT Barger, 27FEB98
6. USS MCINERNEY (FFG 8), MSC Lewis, 11MAR98
7. USS OAK HILL (LSD 51), LT Kutney, 25FEB98
8. USS PATRIOT (MCM 7), LT Bach, 25FEB98
9. USS SAMUEL B. ROBERTS (FFG 58), LT Burks, 18FEB98
10. USS SCOTT (DDG 995), MSC Koehler, 19FEB98
11. USS SCOUT (MCM 8), LT Mann, 19FEB98
12. USS SOUTH CAROLINA (CGN 37), MSCS Harrison, 14FEB98
13. USS SULLIVANS (DDG 68), LT Goudreau, 30MAR98
14. USS SUPPLY (AOE 6), CDR Thornton 04MAR98
15. USS THORN (DD 988), LT Stephens, 19FEB98
16. USS TICONDEROGA (CG 47), LCDR Bartels, 17FEB98
17. USS YORKTOWN (CG 48), LCDR Johnson, 23FEB98

APPENDIX B

QUESTIONS ASKED TO SUPPLY OFFICERS:

1. Is there effective communication between the afloat customers and the SPV contractor?
2. Are the contractors making deliveries to the ships as scheduled?
3. What problems, if any, are you experiencing with deliveries?
4. Do you find that the SPV catalog is accurate and user friendly?
5. How well has SPV supported you while on deployment?
6. Does SPV satisfy your short fused (one hour to 24 hour) delivery requirements effectively?
7. Has SPV had any negative impact on your menu?
8. What impact has SPV had on your records keeping process?
9. Are you able to stay within your Basic Daily Food Allowance (BDFA) limits?
10. Would you prefer to have SPVI on board your ship so that you could order directly from the SPV contractor?

LIST OF REFERENCES

Adreano, James M. and Hanley, Francis E., " *The Feasibility of Implementing a Prime Vendor Program for Laboratory Supplies and Related Material*," Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1996.

Bailey, David B., " *Applicability of Subsistence Prime Vendor to Contingency Rations*," Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1996.

Bartels, John LCDR, SC, USN, Supply Officer of USS TICONDEROGA, Interview conducted in February 1998.

Bland, Paul CAPT, SC, USN, Director of Subsistence at Defense Supply Center Philadelphia, Philadelphia, PA, Interview conducted in January 1998.

Bland, Paul CAPT, SC, USN, " *After Action Report For Subsistence Prime Vendor Surge Exercise*," Defense Personnel Support Center Memorandum, December 1997.

Byres, David LCDR, SC, USN, Code N416 at Commander Naval Surface Forces U.S. Pacific Fleet, Coronado, CA, Interview conducted in January 1998.

Capano, Anthony, " *The Effects of the Department of Defense's Prime Vendor Program on Navy Medical Readiness*," Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1994.

Contract Number SP0300-98-D-2945, For Total Food Support For Naval Ships at San Diego, issued by Defense Personnel Support Center, Philadelphia, PA on December 23, 1997.

Defense Logistics Agency (DLA) Fact Sheet dated February 2, 1998.

Defense Logistics Agency (DLA) Fact Sheet dated February 12, 1998.

Doyle, Richard, PhD, Public Policy and Budget class lecture notes, Naval Postgraduate School, Monterey, CA, January through March, 1997.

Dysick, Jerald, SPV Manager at Fleet and Industrial Supply Center, Norfolk, VA, interview conducted in February 1998.

Eaton, RADM(Ret), " *Eaton's Five Initiatives for Better Logistics by the 21st Century*," Naval Postgraduate School Point Paper, Monterey, CA, January 1998.

Ellis, Sandy CDR, SC, USN, Defense Logistics Agency, Fort Belvoir, VA, Interview conducted in January 1998.

Ford, Keith, Director of Subsistence Prime Vendor at Defense Supply Center Philadelphia, Philadelphia, PA, Interview conducted in January 1998.

GAO/NSIAD-93-110, DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems, United States General Accounting Office, Washington, DC, June 1993.

GAO/NSIAD-95-142, Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings, United States General Accounting Office, Washington, DC, August 1995.

GAO/NSIAD-96-156, Inventory Management: Adopting Best Practices Could Enhance Navy Efforts to Achieve Efficiencies and Savings, United States General Accounting Office, Washington, DC, July 1996.

GAO/NSIAD-97-71, Defense Logistics: Much of the Inventory Exceeds Current Needs, United States General Accounting Office, Washington, DC, February 1997.

GAO/NSIAD-97-110, Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs, United States General Accounting Office, Washington, DC, March 1997.

GAO/NSIAD-97-214, Inventory Management: Greater Use of Best Practices Could reduce DoD's Logistics Costs, United States General Accounting Office, Washington, DC, July 1997.

GAO/HR-97-4, Defense Contract Management, United States General Accounting Office, Washington, DC, February 1997.

GAO/HR-97-5, Defense Inventory Management, United States General Accounting Office, Washington, DC, February 1997.

GAO/HR-97-7, Defense Infrastructure, United States General Accounting Office, Washington, DC, February 1997.

Hamre, John J., " *Management Reform Memorandum #12-Expanding the Use of Prime Vendor Contracts Instruments*," Office of the Under Secretary of Defense, Washington, DC, June 17, 1997.

Inspector General Report number 96-109, *Prime Vendor Support of Medical Supplies*, May 7, 1996.

McCormack, Anthony, Subsistence Prime Vendor Sales Representative for Labatt's Corporation, San Antonio, Texas, interview conducted in February 1998.

Moore, John, " *DoD Launches Next Logistics System*," The Early Bird, October 20, 1997.

Peters, Katherine M., " *Defense Logistics Agency: Relying on Vendors For Quick Buys*," GovExec homepage, August 1996.

Peters, Katherine M., " *Cashing In on Contractors*," GovExec homepage, June 1996.

Secretary of Defense, " *Highlights - Best Business Practices: Excerpt from November 1997 SECDEF Defense Reform Initiative Report*," Washington, DC, November 1997.

Stewart, J.D. MGEN (USMC), " *Naval Logistics Wargame 2007 Executive Summary*" Unites States Naval War College, Newport, RI, October 10, 1997.

Welsh, Linda MSCM(SW), Senior Mess Management Specialist on Staff of Commander, Naval Surface Forces, U.S. Atlantic Fleet, interview conducted in February 1998.

White, Kevin L., " *Adopting the Prime Vendor Program to Manage Marine Corps Authorized Medical/Dental Allowance Lists,*" Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1996.

Young, John, Subsistence Manager at Fleet and Industrial Supply Center Detachment Ingleside, Texas, interview conducted in February 1998.

Zayas, Miguel LCDR, SC, USN, Defense Logistics Agency, Fort Belvoir, VA, Interviews conducted January-February 1998.

INITIAL DISTRIBUTION LIST

1. Defense technical Distribution Center.....2
8725 John J. Kingman Rd., STE 0944
Ft. Belvoir, Virginia 22060-6218
2. Dudley Knox Library.....2
Naval Postgraduate School
411 Dyer Rd.
Monterey, CA 93943-5101
3. Defense Logistics Studies Information Exchange....1
U.S. Army Logistics Management College
Fort Lee, Virginia, 23801-6043
4. Dr. David V. Lamm, Code SM/Lt.....2
Department of Systems Management
Naval Postgraduate school
555 Dyer Rd.
Monterey, CA 93943-5101
5. CDR David A. Smith, Code SM/Sv.....1
Department of Systems Management
Naval Postgraduate school
555 Dyer Rd.
Monterey, CA 93943-5101
6. Dr. Mark Nissen, Code SM/Ni.....1
Department of Systems Management
Naval Postgraduate school
555 Dyer Rd.
Monterey, CA 93943-5101
7. LCDR Christopher S. Mosher, SC, USN.....2
226 Pleasant St.
Pembroke, Massachusetts 02359

DUDLEY KNOX LIBRARY



3 2768 00366743 7